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Republican Club of the City of New York

The United States postal savings system

[New York?]

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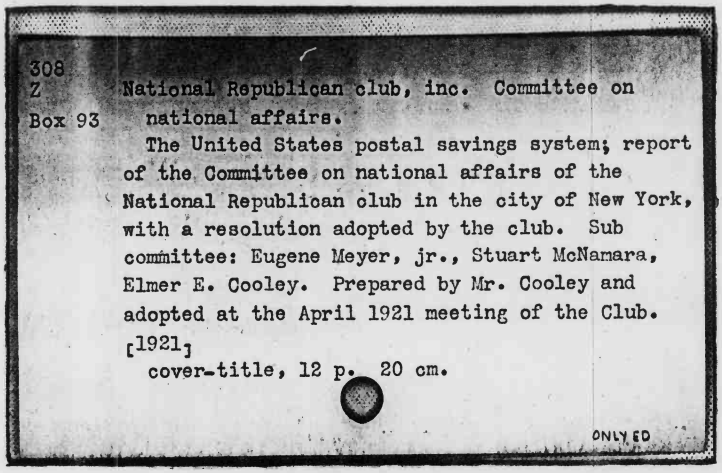
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The United States postal savings system; report of the Committee on national affairs of the National Republican club in the city of New York, with a resolution adopted by the club. Sub committee: Eugene Meyer, jr., Stuart McNamara, Elmer E. Cooley. Prepared by Mr. Cooley and adopted at the April 1921 meeting of the Club.
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THE UNITED STATES POSTAL SAVINGS SYSTEM

REPORT

OF THE

COMMITTEE ON NATIONAL AFFAIRS

OF

The National Republican Club

IN THE

CITY OF NEW YORK

With a Resolution Adopted by the Club

SUB COMMITTEE

Eugene Meyer, Jr. Stuart McNamara

Elmer E. Cooley

Prepared by Mr. Cooley and adopted at the April 1921 Meeting of the Club

Oct. 13, 1922

THE NATIONAL REPUBLICAN CLUB
IN THE
CITY OF NEW YORK.

REPORT
OF THE
Committee on National Affairs on the United States Postal Savings System.

The Need of a Postal Savings System.

The panic of 1907, now almost forgot, emphatically called attention to the need of some federal office where the small depositor, and the larger also, could place his ready funds, and feel sure that he could get them again at any time he might wish. Long lines of men and women were then found standing before the doors of national, state and private banks, each depositor anxiously hoping the bank's funds would last until he got past the paying teller's window. Banks of all kinds refused to pay cash, and many were obliged to take advantage of their right to require a prescribed notice of the withdrawal of funds. Such conditions, from one cause or another, have occurred at irregular intervals and with greatly differing degrees of seriousness, and they will continue to occur whenever conditions become unsettled or uncertain, until a depository, as

secure as our government itself, comes into general use.

It is well known that when money is most needed, it is most hoarded by withdrawal from its usual place of deposit. In March, 1908, the first and second class post offices reported that over 125,000 persons had purchased more than $8,000,000 of postal money orders payable to themselves. This was a rather unique way of hiring Uncle Sam to hold their hoardings in perfect safety until they should come for them. At about this time, and out of the uncertain condition then prevailing, a number of states somewhat strengthened confidence in banks by enacting laws guaranteeing bank deposits, but nothing has had or can get the confidence of the small depositor as the postal and other governmental savings systems of this and other governments have done.

The general need of and desire for, a savings system as secure and convenient as the postal finds emphatic expression in times of panics general and local; in general panics like that of 1907, when 132 banks failed, and in local fiascos like that of Ponzi last year.

A demand for Postal Savings depositories is always imperative in some communities. Post Office Station B in New York City, in an Italian and Jewish neighborhood, on February 28, 1921, had 15,563 depositors, and $7,862,257 on deposit.

Bank failures are increasing notwithstanding the supervision, state and federal, now given to them.

In 1903	there were in the U. S. 121 Bank failures with Liabilities	of	$29,685,000
In 1907—132	"	"	233,326,000
1908—180	"	"	123,127,000
1914—212	"	"	56,005,000
1918— 20	"	"	5,132,000
1919— 50	"	"	16,521,000
1920—119	"	"	50,708,000

The Position of the Republican Party.

In 1908, the national platform of the Republican party declared in favor of the establishment of a Postal Savings System. President Taft was elected upon that platform. The subject was not new to him, for as Governor of the Philippines, he had recently established a Postal Savings System in the Philippine Islands, and he advocated a like system for our general government. President Roosevelt also in his messages of December, 1907, and March, 1908, favored a Postal Savings System. Our Postal Savings law was enacted by a Republican Congress in 1910.

Comparison of Postal Savings Systems.

In 1861, Mr. Gladstone, then chancellor of the exchequer, inaugurated a postal savings system under an act of parliament, and many years later, he referred to the law establishing it as one of the most fruitful of his long career. Prior to that act there had been and still are, in England, trustee banks to encourage thrift and rates of interest

greater than that earned had often been paid and the deficiency was made up by parliament.

A glance at tables showing the amount and number of European depositors—sometimes over 40% of the population—is sufficient evidence of the usefulness and need of government secured and controlled savings, and of all these, the postal savings system is by far the most popular.

In quite a number of American cities, savings have been encouraged among school children. The New York City Board of Education adopted such a system in 1916, (Journal of the American Bankers Association of December, 1920, page 415-421), and on June 30, 1920, there was on hand a balance of about $90,000. In San Francisco, the school savings were then $622,896; in Oakland, $209,100; in Trenton, N. J., $131,615; in Louisville, $60,458; in Minneapolis, $55,798; in Grand Rapids, $75,698; Wilkes Barre, Pa., $81,947; Brockton, Mass., $47,397. These children's savings deposits average very small sums and often, as in New York City, no interest is paid.

In the State of New York and most northeastern States, the savings banks are chiefly *mutual* banks. In 1920, New York mutual savings banks deposits aggregated $2,398,329,000, while postal savings deposits in New York were only $65,-865,838.

The savings deposits in America in 1920 were

In Mutual Banks	$5,186,845,000	at about 4% to 5%
In stock and other banks	1,349,625,000	at about 4%
In Postal Savings	157,276,000	at about 1.4%
A total of	$6,693,746,000	
War Savings Stamps outstanding	799,977,000	at 4%

If the postal savings of other countries made so poor a showing as here, the postal system might well be considered hopeless. The deposits in Canada, Japan and leading European countries are as follows:

	Postal Savings	Other Savings	Deposited in
In Canada:	$41,654,920	$13,633,610	Dominion Government Savings Banks.
United Kingdom:	$989,174,810	$254,758,195	Trustee Savings.
United Kingdom: Gov. stock sold through	($734,760,760)	($75,287,135)	
France:	$311,071,533	$591,352,000	Private Savings.
Belgium; (Government):	$204,147,391	$11,854,503	Communal and Private.
Netherlands:	$97,185,649	$61,278,066	Private Savings.
Italy:	$670,635,473	$662,072,859	Communal and Corporate.
Japan:	$217,861,104	$99,759,850	Private Savings.
	$3,266,491,640	$1,769,996,218	

about 65% in Postal Savings, and 35% in governmental, municipal and other forms of savings institutions.

Operation of Postal Savings in America: Paying 1.4 Per Cent. Interest.

The United States Postal Savings law provides that there shall be a board of trustees consisting of the postmaster general, the secretary of the treasury and the attorney-general, and that they shall adopt rules and regulations, designate offices to receive deposits, invest the funds, etc., etc. 5% of the funds are required to be deposited with the secretary of the treasury as a reserve fund, and the rest in banks in the Federal Reserve System, which pay not less than 2¼% on daily balances, and 2½% is now paid by the banks. The

trustees may not deposit the funds with the banks willing to pay the highest rate of interest, but the funds must be distributed among the banks of the localities where the savings funds are deposited in proportion to the capital and surplus of the banks desiring to receive the same.

Depositors are paid theoretically 2% per annum, but actually about 1.4%. The interest begins to run from the first day of the month following the deposit, but no interest is paid unless the deposit remains a full year from that day. That is, a deposit made on the first of January begins to draw interest on the first of February, but no interest is paid unless the money remains until the first of February of the following year, so much interest is lost to the depositor by withdrawals. Interest is not credited automatically, but the depositor may take the trouble to withdraw and redeposit. The amount on deposit by any individual cannot exceed $2,500.

There is a further provision in the law to the effect that when, in the judgment of the president, the general welfare and interest of the United States so require, the trustees may invest all or any part of the Postal Savings fund, except the 5% reserve fund, in bonds or securities of the United States. The Postmaster General's report for 1920, shows about $24,000,000 are invested in 4¼% Liberty Bonds, purchased in 1919. This report shows that about $7,700,000 are deposited with the United States Treasurer, and over $124,000,000 with banks at 2½% interest on daily balances, but since then about $86,000,000 have been

withdrawn from the banks and invested in Liberty Bonds bearing 4¼% interest. This will increase the government's profits by over $1,000,000. Many millions of short term 6% treasury certificates were sold at par by the Federal Treasury during this time, and there seems to be no reason satisfactory to the depositing public why the government paid 6% to banks and others who purchased these treasury certificates and received only 2½% on savings deposited in banks. The report of the Comptroller of the Currency for 1920 (Vol. 2, p. 38) shows banks made on their bank-note circulation, a net interest and profit of over 7%.

From the beginning in 1911, the number of Postal Savings depositors steadily increased until June 30, 1917, when there were 674,728 depositors. Since then the number steadily fell to 508,508, in June, 1920. The amount deposited increased steadily until March, 1919, when there was $176,828,524 on deposit. After that the amount steadily declined to $157,276,322 in June, 1920.

Profits Taken From the Thrifty Poor.

The earnings, expense, net earnings, payments to depositors and net profit to the government during 1919 and 1920 were as follows:

	Average Monthly Deposits	Total Earnings	Expense	Paid Depositors	Net Profit
1919	$166,118,461	$4,319,516	$407,406	$2,296,383	$1,616,087
1920	$160,869,019	$4,445,850	$461,555	$2,263,745	$1,720,550

From these figures and the fact that $3,510,519

were received from banks at 2½% in 1919, and $3,225,526 from the same in 1920, it is readily calculated that if the moneys deposited in banks at 2½% had been invested in the 6% treasury certificates sold during these years, and assuming the expense of operation to have been 50% more than it was, and that depositors were paid the same, the result would have been with the same average deposit:

	Total Earnings	Expense	Paid Depositors	Net Profit
1919	$9,234,240	$603,569	$2,296,383	$6,334,288
1920	$8,961,588	$692,333	$2,263,745	$6,005,510

The net profit for the two years reported by the postmaster general was $3,336,637. It might readily have been $12,339,798, or more than it was by $9,000,000.

It is clear that thrift should be encouraged by paying this net profit to the many small depositors, whose money earned it. Taking a profit from small depositors, and careless business methods in handling their funds are not items which a great government like ours can be proud of.

Savings Banks Not Jeopardized.

The savings bank systems existing under the laws of the several states are very extensive and important, and their standing and security should not be put in jeopardy; their soundness should be very carefully guarded. It may seem to those who have not examined the matter, that an extension of the postal savings system and the payment of a higher rate of interest would endanger the existing savings banks. We are not without experience in respect to that. The recent extensive, expensive and intensive campaign to sell war bonds and treasury certificates appealed to our patriotism and a 4% return or better appealed to our business instincts, but both together did not cut down savings bank deposits. Besides these Liberty and Victory loan campaigns, the War Savings Stamp drives were still more prolonged and were very intense; more than $1,000,000 was spent on them. These stamps bear 4% interest, are redeemable upon a few days' notice, and $1,172,264,000 of them were sold, and $799,977,000 were still outstanding September 30, 1920. The effect which these campaigns in behalf of the government had on savings banks is shown by actual concurrent deposits, as follows: (Report Comptroller of the Currency, 1920, Vol. 1, p. 242).

Savings Bank Deposits.	
1916	$5,088,587,000
1917	5,418,022,000
1918	5,471,580,000
1919	5,902,577,000
1920	6,536,470,000

The Savings Banks deposits in 1920 exceeded those of 1916 by nearly $1,500,000,000. Deposits in other banks in 1920 were about double what they were in 1914. (Comptroller's Report, 1920, Vol. I, p. 29.)

Investment in government obligations would provide safety, a good return, promote patriotism, and release vast sums to agriculture, to the industries and to commerce.

Postal savings are greatly needed to help digest the very great amount of governmental obligations arising out of the Great War. The need furnishes sufficient reason for the exercise by the Congress of its constitutional right to borrow moneys upon the credit of the United States through a postal savings system. This method distributes governmental obligations to the smallest depositor and makes a satisfied investor of him; satisfied as to security and as to rate of return.

On October 31, 1920, our national debt was $24,062,509,696. This was held in part as follows:

Federal Reserve Banks (owned Nov. 26, 1920)	$320,614,000
held as security	1,736,145,000
National Banks (owned)	2,175,019,000
Member banks held as security (1/28/1921)	2,456,500,000
Savings banks (owned)	403,578,000
Other banks and trust companies (owned)	670,901,000
Total	$7,762,747,000

Other banks and trust companies held a very large amount of these bonds as collateral security. These figures show there has been a very great and patriotic over-purchase of war securities by men who need the money in their usual occupations of agriculture, manufacture and commerce.

The Federal Reserve System has proved a great benefit to the banking institutions of the United States, but comparatively little has been done by our National government to provide facilities to encourage savings in a safe and convenient place and at a fair return. Savings of small sums deposited with the government would doubtless create a large reserve fund, which could be used to withdraw the enormous government obligations held by banks as collateral and otherwise, and release the money now tied up in such ways for use in usual channels of production and commerce.

Respectfully submitted,

EUGENE MEYER, JR.,
STUART McNAMARA,
ELMER E. COOLEY,
Sub-Committee on Postal Savings.

Resolution Adopted Upon the Report.

WHEREAS, in a Republication Administration and a Republican policy, the Postal Savings Law was passed in 1910, and under the same administration the Postal Savings System commenced operations in 1911, designed for the purpose of developing thrift through providing safe depositories for small individual savings at reasonable rates of interest, and to borrow money upon the credit of the United States, and

WHEREAS, the ensuing Democratic Administration has failed to develop the Postal Savings System or adjust it to meet changing conditions, but on the contrary has prevented its development and has thwarted the purposes for which it was established.

NOW, THEREFORE, BE IT RESOLVED, That the National Republican Club, endorsing the action of the party in initiating the Postal Savings System, and deprecating the failure of the Democratic Administration to further its growth and develop its full usefulness, strongly urges upon the present Republican Administration the great need of reorganizing the Postal Savings System by appropriate legislation which will extend and permit its complete development in the interest of depositors and our government, and in general put into effect the principles of the Republican party as expressed in the passage of the Postal Savings Law.

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